

Form ADV Part 2A

Item 1. Brochure Cover Page

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This brochure provides information about the qualifications and business practices of Cornerstone Advisory Corporation. If you have any questions about the contents of this brochure, please contact James M. Torrey at the telephone number or e-mail address shown above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Use of the term "Registered Investment Adviser" or describing oneself as being "registered" does not imply a certain level of skill or training.

Additional information about Cornerstone Advisory Corporation is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2. Material Changes

Cornerstone Advisory Corporation last updated its Form ADV, Part 2A brochure on May 1, 2011. The only material change to the Form since that date is the reported total of assets under management at December 31, 2011, as shown on Page 4, Item 4. Advisory Business.

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Item 4. Advisory Business

Cornerstone Advisory Corporation (Cornerstone) offers the following advisory services to its clients:

Investment Management Services -- These services involve analysis of the financial and tax consequences of investment in various asset categories, including advice as to their applicability to a client's specific financial situation, and recommendations regarding specific investment selections. These services include analysis of the potential risks, expected rates of return, effect on liquidity, and current and future tax savings and/or costs of investment, as well as monitoring of and reporting on the portfolio constructed for a client.

Financial and Tax Planning Services -- These services involve ongoing financial and tax planning, including college funding analysis, retirement planning and tax and cash flow projections as financial circumstances change or special needs arise.

Financial Management -- These services involve coordination with bankers, attorneys, brokers, and others to assist in the completion of financial transactions in accordance with client directions. If requested by a client, these services also include maintenance of accounting records and preparation of periodic financial statements.

Estate and Gift Planning -- These services involve assistance in development of an estate plan, including planning for the minimization of transfer tax liabilities and expenses and maintenance of sufficient liquidity, as well as coordination with attorneys in drafting and executing wills, trust agreements and other documents required to insure proper implementation of the plan.

All advisory services are tailored to the individual needs of the client. With specific reference to investment management services, Cornerstone has not developed and does not maintain a standard or model marketable securities portfolio.

As of December 31, 2011, Cornerstone managed approximately \$79,245,000 of client assets on a discretionary basis.

Cornerstone Advisory Corporation, incorporated in 1981, is wholly-owned by James M. Torrey.

Item 5. Fees and Compensation

Cornerstone is compensated based on a percentage of assets under management, which percentage varies depending upon whether the portfolio is constructed using mutual funds or direct investments. In the case of a portfolio consisting solely of mutual fund investments, we charge a flat fee of .60% per annum on the market value of the portfolio. In the case of a portfolio consisting of direct investments in stocks, we charge a percentage of the market value of the portfolio, as follows:

First \$1,000,000	1.25%
Next \$2,000,000	.75%
Next \$2,000,000	.50%
Over \$5,000,000	.35%

In the case of a portfolio consisting of both mutual funds and direct investments, the percentage fee charged will be based on a combination of the above two schedules, so that compensation for the management of each type of investment, whether mutual fund or direct, will be based on the applicable fee schedule. Percentage fees are subject to negotiation and may be set as a fixed fee retainer.

Fees are charged quarterly, in arrears, based on the market value of assets at the end of the quarter. Fees may be deducted from a client's account directly or paid from a separate bill submitted to the client. Clients may select either method.

In addition to fees paid to Cornerstone for advisory services, clients may incur expenses such as brokerage commissions, other transaction costs or mutual fund expenses. See Page 12, Brokerage Practices, for further information regarding brokerage commissions.

Item 6. Performance-Based Fees and Side-By-Side Management

Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client such as a hedge fund or other pooled investment vehicle. Side-by-side management refers to the practice of one adviser simultaneously managing both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as percentage asset-based, hourly or flat fee.

Cornerstone does not charge performance-based fees, nor does it engage in any side-by-side management arrangements.

Item 7. Types of Clients

Clients to whom Cornerstone generally provides investment advice include high net worth individuals, individuals who are not classified as high net worth, trusts, corporations, partnerships and limited liability companies.

Cornerstone generally requires that any prospective client have a minimum portfolio size of \$1,000,000. Cornerstone also advises clients who are either in the top marginal tax bracket or who have sufficient net worth to justify the detailed financial planning and investment advisory services contemplated.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Individual stocks are chosen based primarily on fundamental analysis, which is a method of evaluating stocks based on factors such as revenues, earnings, book value, return on equity and profit margins, to determine a company's underlying value and potential for future growth.

Mutual funds are chosen based on factors such as fund manager tenure and personal investment level, expense ratio, portfolio turnover and performance relative to benchmarks.

Investments are primarily made for the long term, although in suitable situations client portfolios may also hold securities or mutual funds geared toward short-term or trading strategies. Cornerstone will also occasionally engage in covered option writing for some client portfolios.

Research sources employed by Cornerstone include annual reports and prospectuses, ratings and research prepared by independent providers, and economic and financial periodicals and newspapers.

Investing in securities involves the risk of loss that clients must be prepared to bear. Stocks, bonds and mutual funds utilized in the construction of client portfolios can and do fluctuate in value and there can be no assurance an investment will hold its value in all environments. Long-term holding periods tend to mitigate that price risk to some extent, although unfavorable economic conditions or circumstances applicable specifically to a single investment can still result in losses on any investment. Short-term or trading strategies carry an additional risk of volatility and the chance that an anticipated favorable price movement does not occur.

Item 9. Disciplinary Information

Neither Cornerstone Advisory Corporation nor its sole employee, James M. Torrey, has been the subject of any complaints or been involved in any disciplinary proceedings since the inception of the company in 1981.

Item 10. Other Financial Industry Activities and Affiliations

In addition to investment advice, Cornerstone provides advice to clients on matters not involving securities. Such advice is typically termed "financial planning" and in Cornerstone's case includes advice on issues such as tax and estate planning, retirement planning, college funding planning and cash flow analysis.

Cornerstone also provides other services not strictly defined as advice. These services include tasks such as maintenance of general ledger accounting records and preparation of periodic financial statements.

Cornerstone will, upon request by a client, make recommendations regarding selection of outside institutional advisers to manage a portion of a client's investment portfolio. Those recommendations include advice regarding corporate (i.e., bank) trust departments to serve as trustee or co-trustee for a client's trusts, either existing or to be established under will.

Cornerstone is not affiliated with any broker-dealer, investment company, other investment adviser, other financial planning firm, commodity trading adviser, bank or thrift institution, accounting firm, law firm, insurance company, pension consultant, real estate broker or entity that creates or packages limited partnerships.

Cornerstone's sole employee, James M. Torrey, is the sole stockholder of Cornerstone Asset Management Company, which serves as general partner of The Madisonville Project, Ltd., a Texas limited partnership formed in December 1993 for the purpose of investing in producing oil and gas properties. Several of Cornerstone's clients invested in The Madisonville Project, Ltd. as limited partners. A Form D pertaining to The Madisonville Project, Ltd. was timely filed with the Securities and Exchange Commission on January 25, 1994.

Item 11. Code of Ethics, Participation or Interest in Client Transactions, Personal Trading

Cornerstone has adopted a Code of Ethics pursuant to SEC Rule 204A-1. That Code includes:

1. Standards of conduct required of all Cornerstone employees, reflecting its fiduciary obligations to its clients.
2. Procedures to protect the privacy and confidentiality of client personal and financial information.
3. Provisions requiring all employees to comply with applicable federal securities laws.
4. Provisions regarding recordkeeping of securities transactions of employees of Cornerstone.
5. Provisions requiring all employees to report any violations of the Code of Ethics to Cornerstone's compliance officer.
6. Prohibitions against trading on inside or nonpublic information.

Cornerstone will provide a copy of its Code of Ethics to any client or prospective client upon request.

Cornerstone Asset Management Company, an entity controlled by James M. Torrey, has in the past solicited client investment in The Madisonville Project, Ltd. a Texas limited partnership for which it acts as general partner. That partnership is closed to new investors and neither Cornerstone nor its employees currently solicits client investment in any partnership or other entity which is controlled by a related party.

Cornerstone employees and their family members frequently invest in the same securities that are recommended to clients and may buy or sell those securities for their own accounts at or about the same time that the securities are bought or sold for client accounts. In all cases where timing of the transaction is material, transactions for client accounts are executed before those for employee and family accounts.

Item 12. Brokerage Practices

Factors considered in selecting or recommending broker-dealers for client transactions include:

1. Access to investments. By way of example, this factor takes into consideration the quality of bonds offered through a particular broker-dealer and comparative size of their inventory; or access to mutual funds considered by Cornerstone to be appropriate for purchase or sale in client accounts.

2. Reasonableness of commission rates and other transaction costs in comparison to other broker-dealers.

3. In the case of full-service, i.e. not discount, brokers a consideration of the quality of investment recommendations and research provided in the past to other Cornerstone clients.

Clients are permitted to specify which broker-dealer will represent the client, a practice known in the industry as directed trading. Directed trading has both advantages and disadvantages. Among the advantages are the potential for superior trade execution and/or superior inventory of securities for a specific need. Among the disadvantages of directed trading are the inability of the investment adviser to obtain volume commission rates by aggregating trades, and the possibility that commission amounts or security prices will not be as favorable. In most instances, a client will direct that a particular broker be used if that client has a preexisting relationship with the broker. If, in fact, the client wishes to direct trades to a particular broker, the advantages and disadvantages of doing so are discussed with the client at the time the decision is made.

Cornerstone often recommends that clients establish brokerage accounts with the Institutional Services division of Charles Schwab & Co., Inc., a registered broker-dealer and member of SIPC (the Securities Investor Protection Corporation), to maintain custody of clients' assets and to effect trades for their accounts. Cornerstone is independently owned and is not affiliated with Schwab. Schwab provides Cornerstone with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis and are not otherwise contingent upon Cornerstone committing to Schwab any specific amount of business (either assets in custody or trading volume). Schwab's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum account size or initial investment. For Cornerstone client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts. Schwab also makes available to Cornerstone other products and services that

benefit Cornerstone but may not benefit all of its clients. Some of these other products and services assist Cornerstone in managing and administering client accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Cornerstone's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services may generally be used to service all or a substantial number of Cornerstone's client accounts, including accounts not maintained at Schwab Institutional. Schwab also makes available to Cornerstone other services intended to help Cornerstone manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to Cornerstone by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party provider of these services to Cornerstone.

As a fiduciary, Cornerstone endeavors to always act in its clients' best interests. Cornerstone's recommendation that clients maintain their assets in accounts at Schwab is based on the belief that the benefits to Cornerstone of the availability of some of the foregoing products and services are outweighed by the benefits to its clients of the nature, cost and quality of custody and brokerage services provided by Schwab, as well as the efficiency obtained by holding assets within one consolidated account as opposed to having separate accounts for each mutual fund owned within a portfolio.

Cornerstone does not generally aggregate the purchase or sale of securities for various client accounts, a practice known as block trading. This is primarily because investment decisions are made for clients individually rather than on a company-wide basis. In a situation in which a security is to be bought or sold for all client accounts, block trades are executed.

Item 13. Review of Accounts

Client accounts are reviewed on at least a monthly basis or at any time updated financial information is provided to Cornerstone. Current cash flow analyses, projections of retirement cash flows, estate tax projections and college funding cost projections are prepared as needed. In addition, all accounts are subject to review at any time at the request of the client. All reviews are undertaken by Cornerstone's sole employee, James M. Torrey.

Reports showing portfolio performance and composition are provided to all clients on a quarterly basis. Summaries of income, expenses and realized gain and loss for all taxable accounts are provided to each client on at least an annual basis. Reports of projected income and unrealized gains and losses are provided at any time at the request of the client.

For clients whose portfolios are managed in part by other advisers, such as a bank trust department, the reports provided by those advisers are reviewed by Cornerstone upon receipt from the outside adviser. Reports on the performance of outside advisers typically take the form of telephone or face-to-face consultations with clients on a quarterly or annual basis.

Item 14. Client Referrals and Other Compensation

Cornerstone receives no compensation of any kind whatsoever from anyone for client referrals, nor does it pay compensation to anyone for referrals. Cornerstone's sole compensation comes from fees charged to its clients.

Item 15. Custody

Cornerstone has custody of client funds in certain accounts as a consequence of its authority to make withdrawals from those accounts to pay its advisory fee. As noted in the section headed Fees and Compensation, advisory fees may be deducted from a client's account directly or paid from a separate bill submitted to the client. As is the case with every client regardless of payment method, Cornerstone provides clients who choose to have the advisory fee deducted from their account with a billing statement showing how that fee is calculated. The custodian for the account provides the client with a monthly statement identifying the amount of funds and position in each security in the account at the end of the month and setting forth all transactions in the account during the month. Clients are encouraged to carefully review those monthly statements provided by the custodian.

Item 16. Investment Discretion

Cornerstone accepts discretionary authority to manage securities accounts on behalf of clients. This authority is limited by the asset allocation model and recommended list of securities and/or mutual funds, all of which is reviewed with and approved by the client. Based on the parameters of that plan, Cornerstone is assigned responsibility for decisions regarding the timing and dollar amount of purchases and sales in the account. Evidence of trading authority is contained in an executed Trading Authorization Form or Limited Power of Attorney Form, typically provided by the broker-dealer.

Item 17. Voting Client Securities

Cornerstone does not accept authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or the security's transfer agent. Clients are encouraged to contact Cornerstone by telephone when voting material is received to obtain answers to questions about the solicitation. Because Cornerstone employees or their family members own many of the same securities held in client accounts, proxies and other solicitations will in most cases have previously been received by Cornerstone directly.

Item 18. Financial Information

Cornerstone does not require or solicit prepayment of fees. It has never been the subject of a bankruptcy petition. Cornerstone does accept discretionary authority to manage securities accounts on behalf of clients. There is no financial condition currently existing or anticipated that is reasonably likely to impair Cornerstone's ability to meet its contractual commitments to its clients.

Item 19. Requirements for State-Registered Advisers

This page presents the information required to be shown in Form ADV, Part 2B, Brochure Supplement.

Item 1. Cover Page

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This brochure supplement provides information about James M. Torrey that supplements the Cornerstone Advisory Corporation brochure. Please contact James M. Torrey via telephone or e-mail if you have any questions about the contents of this supplement.

Additional information about James M. Torrey is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2. Educational Background and Business Experience

The sole employee and stockholder of Cornerstone is James M. Torrey, who serves as its Chairman and CEO. Born in 1952, Mr. Torrey holds a B.B.A. in accounting from Southern Methodist University and has been continuously employed by Cornerstone since 1983.

Item 3. Disciplinary Information

James M. Torrey has not been the subject of any complaint or been involved in any disciplinary proceeding since the inception of his employment with Cornerstone in 1983.

Item 4. Other Business Activities

James M. Torrey is a full-time employee of Cornerstone and is not actively engaged in any other business or occupation.

Item 5. Additional Compensation

James M. Torrey receives no compensation for advisory services other than his salary from Cornerstone.

Item 6. Supervision

Because James M. Torrey is the sole employee of Cornerstone, there is no other person who is responsible for supervising him.

Item 7. Requirements for State-Registered Advisers

James M. Torrey has not been involved in any of the events enumerated in the instructions for this Item 7, being related to arbitration claims, civil, self-regulatory organization or administrative proceedings, or bankruptcy petition.